

RESULTS

REVIEW

Bajaj Hindusthan Ltd. (BHL)

Rs. 165 | Sell

Q2FY07 results update

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Nifty: 4169; Sensex: 14218

Key Stock Data

Sector	Sugar
Bloomberg/Reuters	BJH@IN/BJHN.BO
Shares o/s (m)	141.4
Market cap (Rs m)	23,324
Market cap (US\$ m)	567
3-m daily average vol.	9,46,076

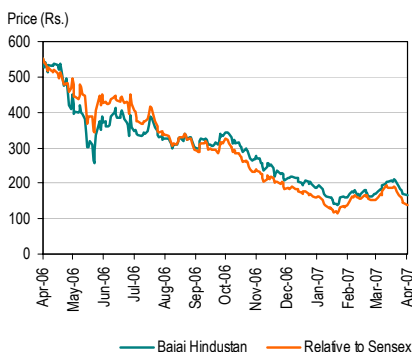
Price Performance

52-week high/low	Rs555/134		
	-1m	-3m	-12m
Absolute (%)	(2.1)	(14.1)	(70.1)
Rel to Sensex (%)	(8.5)	(14.3)	(88.8)

Shareholding Pattern (%)

Promoters	37.71
FII/NRI/OCBs/GDR	29.63
MFs/Banks/FIs	6.34
Non Promoter Corporate	8.24
Public & Others	18.09

Stock vs Relative to Sensex



Highlights

Q2FY07 net sales at Rs.5,139m is up by 45% YoY. EBIDTA margin at 7% bleeding down by 22 percentage points YoY due to declining sugar prices. PAT at Rs.36m is down by 94% YoY. Net profit margin followed the trend, declining by 17 percentage points YoY.

■ Decent topline

In Q2FY07, BHL registered 45%YoY increase in net sales to Rs.5,139m. This increase in topline is on account of higher volumes. BHL's three new plants that commenced crushing this season added to these volumes. BHL was hit by steeply declining sugar prices. The sugar prices have reduced from Rs.18,000/MT to Rs.13,000/MT, way below cost of production.

Revenues from sugar segment increased by 32% YoY to Rs.5,040m on back of higher volumes. Similarly, distillery revenues have increased by 14% YoY to Rs.320.

■ But bleeding bottom line

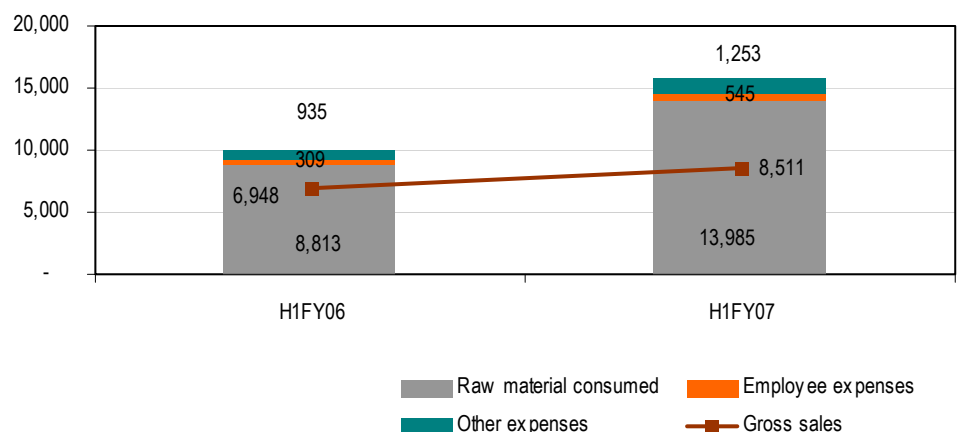
Operating margins at 7% have declined by 22 percentage points YoY compared to 29% in Q2FY06. Net interest cost for the quarter stood at Rs.150m. Depreciation at Rs.353m is up by 52% YoY due to the ongoing expansion activity. PAT at Rs.36m declined by 94% YoY resulting into 17% decline in net profit margin.

■ Disappointing H1FY07 numbers

In H1FY07, BHL posted robust topline growth of 27% YoY to Rs.8,006m. But the margins declined by 16 percentage points to 8%. Alongwith this, the rising burden of interest cost to the tune of Rs.99m and heavy depreciation charges of Rs.568m, which is 54% higher YoY, lead to a steep 76% YoY decline in PAT to Rs.209m.

Figure 1: H1FY07 performance

(Rs. m)



Source: Company reports; IDBI Capital Market Services

Valuations

BHL, like any other company in the industry is hit by downturn in sugar cycle. We do not foresee the revival of this cycle at least for next two years. There is supply glut in domestic as well as international sugar market. Margins are expected to remain under pressure. In this background, we revise downwards our FY07E projections for BHL. The current market price discounts the FY07E EPS of 3.0 by 55.0x. We believe that in unfavorable sugar scenario, the valuations commanded by BHL are stretched and we recommend 'Sell'.

Table 1: Financial snapshot

(Rs. m)

Year-end: Sept.	Q2FY07	Q2FY06	(% Var)	H1FY07	H1FY06	(% Var)	FY07E
Net sales	5,139	3,550	45	8,006	6,303	27	18,640
Other Income	138	182	(24)	217	208	4	509
Operating profit	515	1,207	(57)	891	1,732	(49)	1,584
OPM (%)	7	29		8	24		9
Interest	150	-		99	20	395	198
Depreciation	353	232	52	568	368	54	850
Tax	(24)	330	(107)	15	456	(97)	118
PAT	36	645	(94)	209	888	(76)	418
NPM (%)	1	18		3	14		2
EPS (Rs.)	0.3	5.0		1.5	7.1		3.0

Source: Company reports; IDBI Capital Market Services

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